



JOHN CHIANG
California State Controller

January 16, 2009

Dear Legislator:

As State Controller, it is my obligation to keep you apprised of the State's cash condition and alert you to any impending risks which threaten the State's ability to meet its payment obligations. Over the last few months, I have warned of our eroding reserves, appearing before both houses on December 8 to urge you to take immediate action to remedy the State's shrinking resources. Regrettably, today I must inform you that barring enactment of sufficient legislative solutions, the State will be unable to pay all of its bills in a timely manner in February.

For the past 19 months, I have been meeting the State's financial obligations by using a combination of internal and external borrowing. However, by February 27, those resources will be exhausted and the State will be approximately \$346 million short of needed funds. In April, the overall cash shortfall will increase to as much as \$5.2 billion, which does not include a cash cushion.

To ensure the State has sufficient resources to meet payments classified by constitutional mandate, federal law, or judicial order as having first claim to available cash in the General Fund – including education and debt service – my only options are either delaying payments or issuing registered warrants for all other payments.

If adequate cash solutions are not in place by February 1, I will, with great reluctance, begin to delay all unprotected payments for at least 30 days. I understand that everyone – every elected official, every legislator – has their own vision for a better California. Some include smaller classrooms, some include more roads and highways, some include lower taxes. But I have trouble believing that anyone's vision is to bring the Golden State to its knees, which is the practical consequence of a continued budget stalemate that allows the State to run out of cash next month. Not only will personal income and bank and corporate tax refunds be held, but so will payments for State operations, local assistance, vendors who do business with the State, trial courts and programs for the mentally ill, blind, disabled, and elderly. If I am forced to implement this emergency cash management, there will be a sudden and devastating impact on individuals and families throughout the State.

Despite the horrible affect it will have on those who depend on these vital payments, this action will only provide temporary relief to the State's tenuous cash position. If, by the end of February, there still are no real and adequate solutions in place, I will be forced to further postpone these payments.

Additional days without a midyear solution will result in more payment delays and postponements, causing more undue fiscal hardship to Californians. It will harm businesses that contract with the state to provide services and products, and could result in them cutting costs by eliminating jobs. Postponing income tax refunds and bank and corporation refunds ultimately will cost the State tens of millions of dollars in interest payments if those payments are postponed beyond the date prescribed by law. Delaying tax refunds and other payments also means missing an opportunity to provide a much needed stimulus to our staggering economy.

Please understand that only you – the Governor and Legislature – have the power to avert this drastic action. You have a narrow window of opportunity to take quick action and enact a sound solution to bridge the State's cash and budget deficit. I urge you to seize it. As always, my office is at your service for technical advice as you grapple with the difficult decisions before you.

Sincerely,

JOHN CHIANG
California State Controller